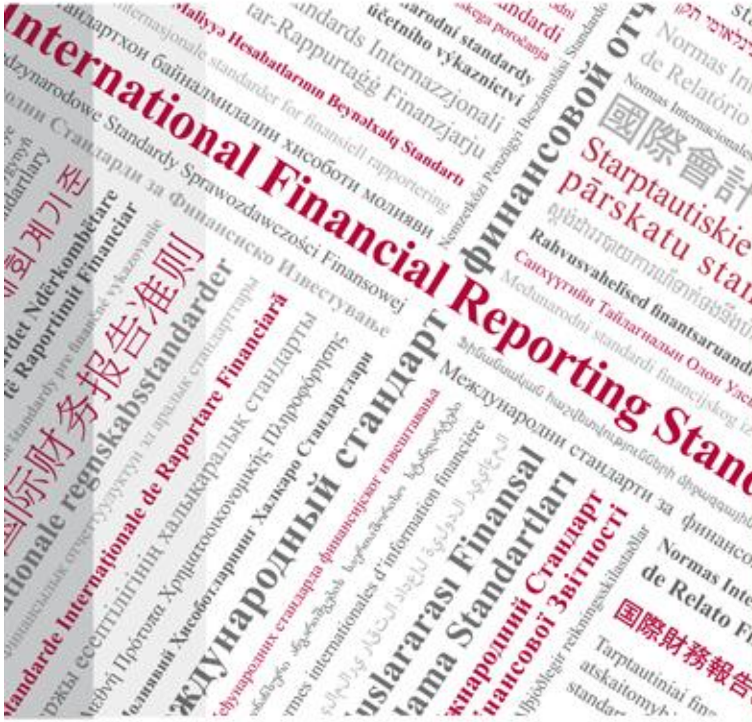
International Financial Reporting Standards



GPF meeting, March 2014
Agenda paper 3

IFRS 9 - Impairment

February 2014

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

IFRS

Purpose and scope

- Purpose of the session:
  - To provide an overview of the expected credit loss impairment model to be incorporated into IFRS 9

- Scope of IFRS 9 expected credit loss impairment model:
  - financial assets measured at amortised cost
  - financial assets measured at FVOCI
  - loan commitments + financial guarantees not measured at FVPL
  - **trade receivables, contract assets and lease receivables**

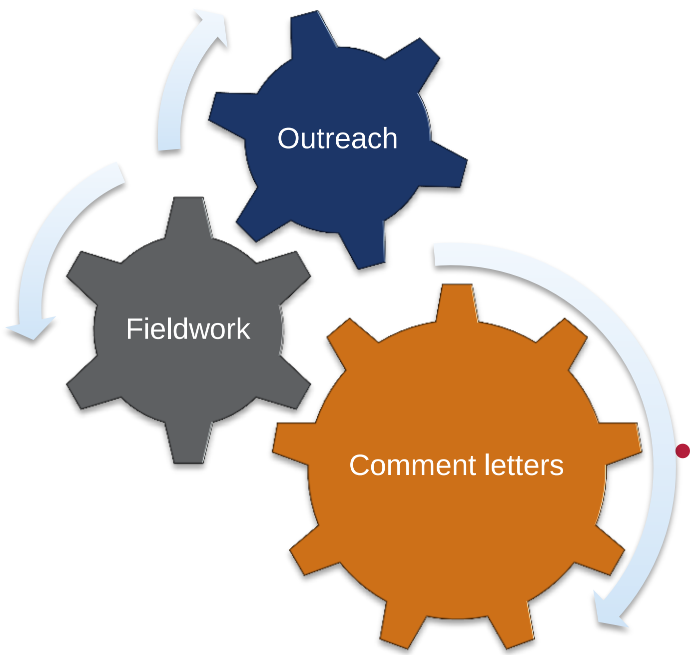
Overview of general impairment model

Change in credit risk since initial recognition

ECL allowance recognised	12 month ECL (lifetime ECL adjusted for probability of default in the next 12months)	Lifetime ECL	Lifetime ECL
Interest revenue	Gross basis	Gross basis	Net basis
	Stage 1 *'Performing'*	Stage 2 *'Underperforming'*	Stage 3 *'Non-performing'*

IFRS®

Impairment - Feedback on ED



- Substantial support
  - For increased credit risk causing lifetime expected credit loss (ECL) recognition
  - Avoids excessive front loading of ECL
  - Pragmatic reflection of economics of lending (while considering operational challenges)
- Consider the model operational
  - Can build on credit risk management systems

Feedback however requested for additional clarifications

Redeliberation of the general model

- Requirement to capture significant increases in credit risk even when it cannot be identified at the individual instrument level

Emphasise:
- objective is to capture all significant increases in credit risk, even if not individually identified
- need to consider all reasonably available information

- Assessment of significant deterioration in credit risk

- Maintain assessment based on change in credit risk (not losses)
- Confirm can assess looking at 'portfolio credit quality'
- Confirm not required to use a PD to assess
- Confirm when appropriate to use 12 month PD

Redeliberation of the general model (contd.)

- Defining default
  - Align to internal credit risk management system
  - Should consider qualitative indicators (eg covenants)
  - Rebuttable presumption that default does not occur later than 90 days past due
- Operational simplifications
  - > 30 days past due rebuttable presumption
    - Retain but clarify it is a backstop
  - Low credit risk
    - Rearticulate
    - Make it a practical expedient rather than mandatory

Redeliberation of the general model (contd.)

- Discount rate

  - Proposed a range between risk free and EIR (carried forward from SD)
  - Told that the difference can have a significant effect
  - Require EIR or an approximation thereof

- Loan commitments and financial guarantee contracts

  - Contractual period is appropriate for most off-balance sheet credit exposures
  - However, for revolving credit facilities contractual notice period does not necessarily limit exposure to credit risk

Redeliberation of the general model (contd.)

- Disclosures

    - Strengthen disclosure objectives
    - Address operational concerns with providing detailed roll-forward information on gross asset balance
        - Trade receivables – not necessarily provide gross movements

- Confirmation of proposals in the ED

    - Modifications
    - Recognition of interest revenue
    - FVOCI
    - Simplified approach for trade receivables and lease receivables

Next steps

- Mandatory effective date of IFRS 9

- Annual periods beginning on or after 1 January 2018

- Expected date for issuing final version of IFRS 9

- H2 2014

FASB's recent decisions

- Proceed to refine the CECL (lifetime expected credit loss) model proposed
- Don't require discounting of expected credit losses
- Redeliberate impairment model for FVOCI
- Impairment also affected by recent decisions on C&M
- Plans to publish final requirements by end of June 2014

Thank you


individual comments
expressions of individual vie
questions
comment
expressions of
individual views
comments
feedback
questions
feedback
questions or comments
expressions of individual views
comments
questions or individual comments
dividual comments
questions or
ndividual
comments
xpressions of